

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1281-01
Bill No.: SB 375
Subject: Taxation and Revenue - Income; Economic Development; Counties, Cities, Towns and Villages; Economic Development Department.
Type: Original
Date: February 7, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	\$0	(\$245,698)	(\$245,698)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$245,698)	(\$245,698)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds*	\$0	\$0	\$0

* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	\$0	\$0	\$0

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the bill authorizes a new enterprise zone in Pulaski County and one for Richland. DED does not feel the bill has enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

DED states the average cost for each enterprise zone in a rural area (not located in a Standard Metropolitan Area such as Kansas City, St. Louis, St. Joseph, Springfield, or Joplin) is estimated to be \$122,849 per year. This bill provides for 2 full enterprise zones in rural areas. The cost of an

ASSUMPTION (continued)

enterprise zone includes the costs of EZ tax credits, refunds, and income modifications (modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped.

DED assumes the state's Total State Revenue will be reduced by the tax credits and income modifications. This will be offset by some positive but indeterminable amount of economic benefit realized by the designation of enterprise zones.

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant number of taxpayers that would/could use this credit. Therefore, DOR will not request additional FTE at this time. However, if the number of additional credits is larger than expected, DOR states they will need one Tax Processing Tech I for every 5,000 additional personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers.

Officials from the **Department of Insurance (INS)** state the designation of an additional enterprise zone will increase the areas that receive enterprise zone tax credits. If insurance companies invest or expand into the new enterprise zone, they will be eligible for additional tax credits, reducing premium tax revenue. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance fund which is later distributed to school districts. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

Officials from the **City of Richland** and **Pulaski County** each assumed the proposal would not fiscally impact their respective agencies within the three fiscal years reflected in this fiscal note due to the amount of time it would take to design and make application for enterprise zone status.

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact as zero. The fiscal note does not reflect any indirect positive result that may occur because of the tax credits issued.

This proposal may result in a loss of Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
<u>Loss</u> - Enterprise Zone in Pulaski County	\$0	(\$122,849)	(\$122,849)
<u>Loss</u> - Enterprise Zone in Richland	<u>\$0</u>	<u>(\$122,849)</u>	<u>(\$122,849)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>(\$245,698)</u>	<u>(\$245,698)</u>

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could fiscally impact new or expanding businesses within the new enterprise zones.

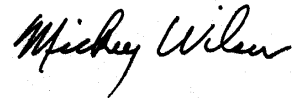
DESCRIPTION

This proposal requires the Department of Economic Development to establish one enterprise zone in Pulaski County and another in the City of Richland.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance
Pulaski County
City of Richland

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 7, 2003